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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 May 2008, London
Project: Revenue Recognition
Subject: Cover note (Agenda paper 7A)

Papers for the meeting

1. The paper for discussion at the May meeting is Agenda Paper 7B *Measurement of the Contract*. Like last month's papers, this is a draft chapter for the forthcoming discussion paper on revenue recognition.
2. The chapter is accompanied by two appendices:
 - Appendix A *Another possible measurement approach*
 - Appendix B *Why not use an entity-specific measurement?*

Objective of the measurement chapter

3. The objective of this chapter is to explain two potential measurement approaches for the proposed revenue recognition model: the *customer consideration* measurement approach and what is now described as the *current exit price* measurement approach. Although the paper on the MOU for the April 2008 joint Board meeting recommended that the Boards pursue the customer consideration measurement approach, the staff understood from the Boards' discussion that the discussion paper should still explain both potential measurement approaches.
4. In preparing this chapter, the staff concluded that there are two fundamental differences between the two measurement approaches:

- (a) the approaches (initially) use different measurement objectives (ie exit price and customer consideration) and
 - (b) one approach calls for remeasurement while the other does not (ie the initial measurements are locked in at contract inception).
- 5. Because the choice of measurement objective and the decision whether to remeasure are two distinct issues that have their own consequences, the staff concluded that the chapter should analyse these two issues separately. Hence, the chapter starts by considering two different measurement objectives for measuring the performance obligations in a contract, namely *exit price* and what is described as *sales price* (ie the total contract price charged to the customer). The chapter then considers what remeasuring the performance obligations would mean for both an exit price objective and a sales price objective. The chapter also discusses the implications if the performance obligations are *not* remeasured after contract inception (ie if the initial measurement is locked in at inception). The chapter evaluates the strengths and weakness of each of the two measurement objectives (exit price and sales price) and the strengths and weaknesses of remeasurement.
- 6. The analysis in this chapter therefore implies that there are four possible measurement approaches from the combination of using either an exit price or sales price at contract inception and then either remeasuring or locking in those measurements after contract inception. The chapter concludes by explaining why some Board members prefer the combination of exit price with remeasurement (the current exit price measurement approach) and some Board members prefer the combination of sales price with no remeasurement (the customer consideration measurement approach).
- 7. Some may think that the chapter should get to the two measurement approaches more quickly and that the staff should simply evaluate the strengths and weaknesses of the two measurement approaches. However, the staff's view is that separate consideration of the two fundamental issues (ie which objective and whether to remeasure) facilitates a better understanding of the differences between the two measurement approaches. It also allows the Boards to pose questions that should yield better input from constituents than if they simply asked constituents which of the two approaches they prefer. This is because the questions can focus on the main distinguishing features of the two approaches.
- 8. In addition, the staff thinks that this structuring of the chapter allows more of an opportunity for Board members to express their views. Although the staff does not think that the current exit price approach commands broad support among Board members (perhaps because of questions about the relevance and costliness of the measurement objective), some of the members who do not support that approach are nonetheless concerned about not remeasuring performance obligations in the customer consideration approach (at least in some cases). Discussing the measurement objective and remeasurement issues separately in this chapter will therefore allow Board members to articulate their own views more clearly to constituents.

9. In that regard, the chapter includes an appendix that starts exploring how the Boards might develop a hybrid measurement approach that includes remeasurement (at least in some cases). The majority of the appendix illustrates a measurement approach in which some, but not all, components of the initial measurement are updated after contract inception. Of course, there are other hybrid measurement approaches that the Boards could articulate, but the purpose of this appendix is simply to give constituents a taste of the kind of hybrid approach that could be developed.

Objective of the meeting

10. In our discussion of this chapter, the staff welcome the Boards' comments on the following questions:
 - (a) Do you agree with the staff's proposed structure for this chapter? In particular, do you agree that the two issues of (i) which measurement objective should be used to measure performance obligations and (ii) whether measurements should be updated after initial recognition should be analysed separately?
 - (b) Do you think that the discussion about these issues is sufficiently complete and clearly explained?
 - (c) Do you think that the main strengths and weaknesses of (i) the two measurement objectives and (ii) remeasurement are appropriately captured?
 - (d) Do you agree with including an appendix to the chapter that starts exploring a possible hybrid measurement approach?
11. At the end of the discussion, the staff will ask the Boards to express a preliminary view in favour of one of the measurement approaches (current exit price or customer consideration). As the April 2008 revised MOU document suggested, the staff expects that most Board members will favour the customer consideration approach. However, because some Board members in the past have expressed concern about no remeasurement under the customer consideration measurement approach, the staff will also ask the Boards whether there are a limited set of contracts (such as stand-ready obligations) for which remeasurement would be warranted.
12. In summary, the staff intends to ask the following questions of the Board:
 - (a) Does the Board favour the customer consideration measurement approach or the current exit price measurement approach?
 - (b) If the Board favours the customer consideration measurement approach, are there circumstances (aside from onerous contract situations) in which the Board would still want to remeasure performance obligations?